

EDUMBE LOCAL MUNICIPALITY – KZN 261

ANNUAL DRAFT REPORT BUDGET

2013/14 - 2015/16



## MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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## **Overview of eDumbe Local Municipality**

The eDumbe Municipality is situated in the north-western part of KwaZulu-Natal. It covers a geographical area of 1 947 km<sup>2</sup> and is home to a population of about 101 607. The municipal area of jurisdiction is demarcated into 8 wards which is predominantly rural in nature. Furthermore, the eDumbe Municipal area comprises of 52 settlements in total, which includes 48 dispersed rural settlements, 3 urban areas and one major town. The major town/urban centre are Paulpietersburg/ Dumbe located in relation to the national road and rail networks.

## **Executive Summary**

The application of sound financial management principles for the compilation of eDumbe Local Municipality financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

National Treasury's MFMA Circular No. 66 and 67 were used to guide the compilation of the 2013/14 MTREF.

The main challenges experienced during the compilation of the 2011/12 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained roads and electricity infrastructure;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Most of the rural settlements are small thus making service delivery costly, this effect is compounded by the aspect that only 35% of the municipality's population lives in an urban area while 65% lives in the rural hinterland of the municipality. The spatial development pattern of the municipality will have to be addressed.
- Income levels in eDumbe tend to be quite low with 69% of the population earning less than R800 a month. The traditional and rural areas are the most poverty stricken.

## **Legislation compliance status**

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

### **In year reporting**

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved when it comes to the submission to the Mayor and treasury.

### **Internship programme**

The Municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. Two interns are currently attending the course which is conducted by DBSA (Municipal Finance Management Programme) which is NQF level 6. The course is a minimum requirement for the senior managers. Since the introduction of the Internship programme the Municipality has successfully absorbed 5 interns.

### **Budget and Treasury Office**

The Budget and Treasury Office has been established in accordance with the MFMA.

### **Audit Committee**

An Audit Committee has been established and is fully functional.

### **Internal audit unit**

An internal audit unit has been outsourced and is fully functional.

### **Service Delivery and Implementation Plan**

The detail SDBIP document is at a draft stage and will be finalised after approval of the 2013/14 MTREF in May 2013.

## **Legislative framework**

The 2012/2013 budget is prepared in accordance with the Local Government; Municipal Finance Management Act, 2003 and the Municipal Budget and reporting regulations issued by the Minister in terms of Section 168(1) of the Act. In terms of these regulations a multi-year budget spanning over three (3) years is prepared. It needs to be noted that the figures for 2013/2014 and 2014/2015 are indicative in terms of the medium term expenditure framework.

The budget comprise of two categories:

- (a) Operational Budget
- (b) Capital Budget

## **The focus area where éDumbe Municipality is rendering service to community includes the following:**

- Electricity supply
- Solid waste removal
- Cemeteries
- Fire fighting
- Traffic
- Municipal roads

## **Linkages between the budget, the IDP and political priorities**

Firstly, the budget timetable and the IDP process plan are aligned through an integrated time schedule.

Secondly, the IDP is prepared and the projects are included in the budget with each project properly reference per IDP reference number.

Moreover, the financial plan comprising the total budget, among other items, is included in the IDP.

Finally, the implementation of electricity and solid waste projects and other assigned functions through the structures Act constitutes compliance with National, Provincial and Local development goals to eradicate backlogs of the past.

## IDP Strategic Objectives

Key Performance Area: Local Economic Development	
Strategic Focus Area	Objectives
1. Job Creation	Enhance Industrial Development through Trade & Investment
	Expansion of Government-led Job Creation Programmes
	Promoting SMME, Entrepreneurial and Youth Development
	Enhance the Knowledge Economy
2. Fighting Poverty	To Alleviate poverty
3. Natural Resources	Unleashing Mining Potential
	Unleashing Agricultural Potential
	To promote sustainability & ensure protection of municipal natural resources and heritage sites
4. Tourism & Marketing	To market the municipality and its opportunities that it offers
5. Informal economy	To formalise the informal economy/sector
Key Performance Area : Service Delivery & Basic Infrastructure Development	
Strategic Focus Area	Objectives
1. Roads	Improve accessibility in all wards
	Refurbish existing Roads in rural & urban areas
2. Electricity	To improve the current electrical network
3. Sustainable Human Settlements	To provide Sustainable Human Settlements to people of eDumbe
4. Refuse Removal (solid waste)	To facilitate the effective and efficient removal of solid waste
5. Cemeteries	To ensure that there is sufficient burial space and that cemeteries are well kept
6. Community Facilities	To ensure the community is well equipped with services and facilities
Key Performance Area: Financial Viability & Management	
Strategic Focus Area	Objectives
1. Revenue	To improve revenue collection
2. Expenditure	To ensure compliance of the MFMA in terms of section 65 & be a debt free municipality
3. SCM	To ensure compliance of chapter 11 of MFMA
4. Asset Management	To have a complete & effective asset register

Key Performance Area: Municipal Transformation and Institutional Development	
Strategic Focus Area	Objectives
1. Municipal Policies	To ensure that the municipality has in place all the relevant prescribed policies, strategies and by-laws
2. Capacity building & Skills development	To ensure that staff as well as councillors are exposed to capacity building initiatives
3. Performance Management	To establish a Performance Management unit
4. Vacant posts	Ensure critical posts are filled
5. Employment equity	To ensure that the municipality is compliant with labour laws
6. Municipal Website	To have a website that is easily accessible and informative
7. Record Management	To have a fully functional and effective record system
8. MTAS	To have a MTAS that addresses the municipality's critical issues
Key Performance Area : Good Governance and Community Participation	
Strategic Focus Area	Objectives
1. Fraud and Corruption	Eradicate fraud and corruption
2. Communication and relationship building	Strengthen & Improve Communication & relations internally and externally (including IGR)
3. Customer care and satisfaction	Improve current customer satisfaction
4. Government & Admin meetings	To ensure that all municipal statutory bodies are fully operational, functional & effective
5. IDP	Promote integrated development planning
6. Poverty, Social Welfare & food security	Safeguard sustainable livelihoods and food security
	To alleviate poverty
7. Health care	Enhancing health of communities and citizens
8. Public Safety & Security	Enhancing public safety and security
9. Special Groups	Promote youth, disabled, elderly & women
10. HIV/AIDS	To reduce the impact of HIV/AIDS
11. Sport development	To promote sports development
12. Arts and culture	To promote arts & culture
Key Performance Area : Spatial Development and Environment Planning	
Strategic Focus Area	Objectives
1. LUMS	To promote harmonious & co-ordinated land uses to achieve sustainable environment
2. SDF	To ensure effective management of current and desirable land uses
3. Land Reform	To ensure that the process of land reform is fast tracked
	To ensure that the land re-institution programme is of an advantage to the beneficiaries
4. GIS	To establish a GIS Unit within the municipality
	To ensure that all GIS data is accessible and readily available to the municipal departments in a sustainable manner
5. Energy Usage	Promote usage of alternate energy sources
6. Land usage	Ensure sustainable usage of land
7. Disaster Management	A disaster man. Plan that is responsive

### Consolidated Overview of the 2013/14 MTREF

R thousands	Adjustment budget	Budget Year	Budget Year	Budget Year
	2012/2013	2013/2014	2014/2015	2015/2016
Total operating Revenue	74 564 326	79 727 958	88 049 411	101 392 856
Total operating Expenditure	74 564 326	79 027 958	84 551 373	92 502 011
(Surplus)/ Deficit for the Year	0	700 000	3 498 038	8 890 845
Capital transfers	15 462 000	25 351 000	22 198 450	27 119 950
Total Capital Expenditure	<b>15 462 000</b>	<b>26 051 000</b>	<b>25 696 488</b>	<b>36 010 795</b>

Total operating revenue has grown by 6.90 per cent or R 5 163 632 for the 2013/14 financial year compared to the 2012/13 approved Adjustments Budget. For the two outer years, operational revenue will increase by 10.40 and 15.10 per cent respectively, equating to a total revenue growth of R 26, 8 million over the MTREF when compared to the 2012/13 financial year.

Total operating expenditure for the 2013/14 financial year has been appropriated at R26, 051 million. When compared to the 2012/13 Adjustments Budget, operational expenditure has grown by 6 per cent in the 2013/14 draft budget and by 7 and 9.1 per cent for each of the respective equating to a total expenditure increase of R 13, 5 million over the MTREF.

The capital budget of eDumbe Local Municipality has increased from R 15,462 million to R 26, 351 million. The increase resulted from the new allocation which will be received by the municipality from Department of Energy for the Electrification of Programs.

### Operating Revenue Framework

The expenditure required to address these challenges will inevitably always exceed available funding hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues. The municipality has a huge task to implement the revenue enhancement strategy due to the fact that the municipality has a huge backlog on infrastructure which must be addressed.

The municipality's revenue strategy is built around the following key components:

- Efficient revenue management
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the municipality.

## Operating Transfers and Grant Receipts

The National Treasury has allocated grants to the municipality through DORA which will assist on the provision of the basic services. The schedule of grants received is as follows:

Description R thousand	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
<b>RECEIPTS:</b>									
<b>Operating Transfers and Grants</b>									
<b>National Government:</b>									
Local Government Equitable Share	21 497 000	26 395 000	32 113 000	36 417 000	36 417 000	36 417 000	40 352 000	46 464 000	57 714 000
EPWP Incentive				1 000 000	1 000 000	1 000 000	0		
Municipal Systems Improvement		750 000	790 000	800 000	800 000	800 000	890 000	934 000	967 000
Finance Management	750 000	1 200 000	1 450 000	1 500 000	1 500 000	1 500 000	1 650 000	1 800 000	1 950 000
Municipal Infrastructure Grant							681 000	852 550	901 050
	22 247 000	28 345 000	34 353 000	39 717 000	39 717 000	39 717 000	43 573 000	50 050 550	61 532 050
<b>Provincial Government:</b>									
Arts and Culture				482 000	482 000	482 000	939 000	986 889	1 035 247
Community Participation for IDP's				200 000	200 000	200 000	0	0	0
Development Planning Shared Services				950 000	950 000	950 000	0	0	0
Health subsidy	426 000	0	459 000	0	0	0	0	0	0
<b>District Municipality:</b>	426 000	0	459 000	1 632 000	1 632 000	1 632 000	939 000	986 889	1 035 247
<i>ZDM Tourism Grant</i>	80 000	80 000	80 000	80 000	0	0			
	80 000	80 000	80 000	80 000	0	0	0	0	0
<b>Total Operating Transfers and Grants</b>	<b>22 753 000</b>	<b>28 425 000</b>	<b>34 892 000</b>	<b>41 429 000</b>	<b>41 349 000</b>	<b>41 349 000</b>	<b>44 512 000</b>	<b>51 037 439</b>	<b>62 567 297</b>



## **Property Rates**

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process. The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R30 000 reduction on the market value of a property will be granted in terms of eDumbe Local Municipality's proposed draft Property Rates Policy to be implemented in 2013/2014.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. The proposed property rates tariff has been from 6 per cent compared to the tariffs which were implemented in 2012/2013 Financial Year. The proposed tariffs for the property rates which will be implemented by eDumbe Local Municipality is as follow:

<b>Property Category</b>	<b>2012/2013</b>	<b>2013/2014</b>	<b>Rebate</b>
Residential	0.00687	0.00728	
Business	0.01296	0.01374	10%
Agricultural	0.00172	0.00182	
SPL	0.01296	0.01374	
PSI	0.00172	0.00182	
Vacant Land	0.01296	0.01374	10%

## **Sale of Electricity and Impact of Tariff Increases**

NERSA has approved an average increase to Eskom on bulk electricity by 8 per cent. The municipality will apply to NERSA for the electricity tariff which will be implemented in 2013/2014. The municipality is currently waiting for the guidelines which will be sent to municipalities which will be used by all municipalities when applying for the tariff increases. The revenue projections on the draft budget were based on the actual figures of electricity sales as at 31 December 2012 with the projected figures for the remaining 6 months.

## Waste Removal and Impact of Tariff Increases

A 6 per cent increase in the waste removal tariff is proposed from 1 July 2013. The following table compares current and proposed amounts payable from 1 July 2013:

WASTE REMOVAL PROPOSED TARIFFS	2013/2014
1. Domestic Removals – Refuse	R 82.22 excl. VAT
2. Business Removals – Refuse	
1-2 Bins	R 221.75 excl. VAT
3-4 Bins	R 322.90 excl. VAT
5-6 Bins	R 358.40 excl. VAT
More than 6 Bins	R 513.68 excl. VAT

## Operating Expenditure Framework

The eDumbe Local Municipality expenditure framework for the 2013/14 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2013/14 budget and MTREF (classified per main type of operating expenditure):

Description R thousand	Ref	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
<b>Expenditure By Type</b>											
Employee related costs	2	16 192 985	19 061 717	26 326 641	27 347 357	27 347 357	27 347 357	27 347 357	29 554 666	33 138 604	35 466 909
Remuneration of councillors		2 751 982	2 699 460	2 917 536	3 322 895	3 322 895	3 322 895	3 322 895	3 832 714	4 101 004	4 388 074
Debt impairment	3	32 695 661	0						0	0	0
Depreciation & asset impairment	2	2 920 762	3 302 756	21 222 196	1 276 231	1 276 231	1 276 231	1 276 231	1 500 000	1 560 000	1 622 400
Finance charges		832 320	122 270	677 998	120 000	120 000	120 000	120 000	120 000	124 800	129 792
Bulk purchases	2	8 814 301	7 984 409	11 215 559	9 000 000	13 000 000	13 000 000	13 000 000	12 274 987	12 765 986	13 276 626
Other materials	8								150 000	156 000	162 240
Contracted services		1 115 792	2 050 537	3 710 989	2 400 000	2 496 000	2 496 000	2 496 000	2 502 000	2 602 080	2 706 163
Transfers and grants		4 020 821	4 746 551	2 051 635	0	0	0	0	420 000	453 600	489 888
Other expenditure	4, 5	10 465 819	10 900 776	14 559 844	32 398 508	27 001 843	27 001 843	27 001 843	28 673 591	29 649 299	34 259 919
Loss on disposal of PPE		38 242									
<b>Total Expenditure</b>		<b>79 848 685</b>	<b>50 868 476</b>	<b>82 682 398</b>	<b>75 864 991</b>	<b>74 564 326</b>	<b>74 564 326</b>	<b>74 564 326</b>	<b>79 027 958</b>	<b>84 551 373</b>	<b>92 502 011</b>

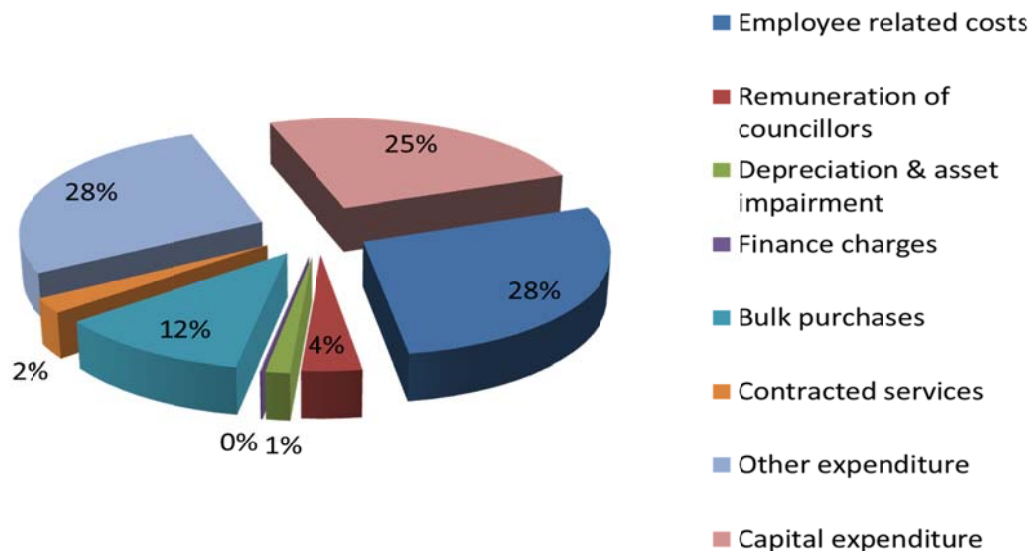
The employee related costs comprises 37 per cent of the total operating budget and 27 per cent of the total budget inclusive of capital budget. Despite the alignment of salaries projects the employee cost percentage showed an increase of 2 per cent when compared to operational budget but an improvement of 2 per cent comparing to the total budget which include the capital budget. The municipality has made a provision of 7 per cent for the increase on the salaries of Municipal staff as per the SALGA agreement signed last year.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipal budget. It must also be noted that the position of the Mayor and Speaker has been changed from part-time to full time which had an impact on the allowances of the councillors.

Bulk purchases are directly informed by the purchase of electricity from Eskom. The annual price increases which has been approved by Nersa of 8 per cent for Eskom has been factored into the budget appropriations and directly inform the revenue provisions

Contracted services have been identified as a cost saving area for the City. As part of the compilation of the 2011/12 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. The contracted services include the provision of the grass cutting to the municipal properties and the security services to all municipal buildings as per the service level agreement signed between two parties. An amount of R 2 502 000 has been provided.

The following table gives a breakdown of the main expenditure categories for the 2013/14 financial year.



Expenditure breakdown by category

Employee related costs	R	29 554 666
Remuneration of councillors	R	3 832 714
Depreciation & asset impairment	R	1 500 000
Finance charges	R	120 000
Bulk purchases	R	12 274 987
Contracted services	R	2 502 000
Other expenditure	R	29 243 591
Capital expenditure	R	26 051 000

### Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the eDumbe Local Municipality's Indigent Policy. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement) on page 38. The municipality is currently provide the free basic electricity to rural household and the municipality pay Eskom for the provision of the free basic electricity since the license holder is Eskom.

## 1.1 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure:

R thousand	Program/Project description	Asset Sub-Class 3	Total Project Estimate	Project information	
				Ward location	New or renewal
Transportation and Roads	Mnyayiza Causeway	<i>Roads, Pavements &amp; Bridges</i>	1 800 000	8	New
Transportation and Roads	Obivane Causeway	<i>Roads, Pavements &amp; Bridges</i>	1 700 000	7	New
Transportation and Roads	PaulPietersburg Roads	<i>Roads, Pavements &amp; Bridges</i>	1 500 000	3	Renew
Environmental Management	Dumping Site	<i>Waste Management</i>	1 700 000	3	Renew
Environmental Management	eDumbe Grave Yard	<i>Cemeteries</i>	1 500 000	3	Renew
Electrical Services	eDumbe High Masts	<i>Street Lighting</i>	1 400 000	3	New
Transportation and Roads	Madelakufa Roads	<i>Roads, Pavements &amp; Bridges</i>	1 200 000	3	New
Transportation and Roads	Bilanyoni Roads	<i>Roads, Pavements &amp; Bridges</i>	1 251 000	4	New
Sports and recreation	Kwafilimoni Stadium	<i>Sportsfields &amp; stadia</i>	1 700 000	6	New
Sports and recreation	Tholakele Combi Court	<i>Sportsfields &amp; stadia</i>	1 200 000	5	New
Safety and Security	Tourism Fencing	<i>Buildings</i>	400 000	3	Renew
Electrification	Electrification	<i>Generation</i>	10 000 000	3 and 1	Renew and New
Office space	Purchase of Parkhome offices	<i>Office space</i>	700 000		
Total Capital expenditure			26 051 000		

The capital budget is funded by the grants which will be transferred to the municipality by National Treasury as per DORA allocation gazette for 2013. An amount of R16 million will be transferred for Municipal Infrastructure Grant while R 10 million will be transferred for electrification programs. A further R700 000 which will be used to purchase the Parkhome for Planning department will be funded by own funds generated by the Municipality.

The comparison for 2012/2013 financial year and 2013/2014 has shown an increase in capital budget of 68.8 per cent which is due to the allocation of the electrification program and the increase in MIG funds. The MIG funds has increased by 3, 6 per cent.

## **Council Resolutions**

On 28 March 2013 the Draft budget for 2013/2014 financial year was tabled to Council meeting of eDumbe Local Municipality held in the Council Chambers.

1. The Mayor of eDumbe Local Municipality, acting in terms of section 16 (2) of the Municipal Finance Management Act, (Act 56 of 2003) tabled the annual draft budget to a council meeting. The council resolved to:

- 1.1. Take note of the operating and Capital budget for 2013/14

- 1.2. Take note of the draft operational and Capital budget for the outer years 2014/2015 and 2015/2016

- 1.3. Take note that provision was made for a general increase of 6.95% on salaries of officials and upper limits of Councillors salaries, allowances and benefits, implementation being subject to the confirmation by the SALGBC and determination of upper limits by the Minister for Provincial and Local Government respectively.

- 1.4. Take note that the draft revised Integrated Development Plan was observed and taken into account in the compilation of the draft budget.

- 1.5. Those copies of the budget are submitted to National Treasury, DPLG, DTLGA and Provincial Treasury as per the requirements of the MFMA.

- 1.6. The tariff policy, credit control and debt collection policy, cash management policy, supply chain management policy and financial plan have been reviewed and no changes are considered necessary

1.7. That the tariffs be reviewed based on recommendations attached.

1.7.1. That the tabled draft budget for the year 2013/2014 & indicative figures for the 2 projected outer years be approved as set out in the following schedules:

1.7.1.1.	Table A1	Budget Summary
1.7.1.2.	Table A2	Budgeted Financial Performance (By Standard Classification)
1.7.1.3.	Table A3	Budgeted Financial Performance (By Municipal Vote)
1.7.1.4.	Table A4	Budgeted Financial Performance (Revenue & Expenditure)
1.7.1.5.	Table A5	Budgeted Capital Expenditure
1.7.1.6.	Table A6	Budgeted Financial Position
1.7.1.7.	Table A7	Budgeted Cash Flows
1.7.1.8.	Table A8	Cash Backed Reserves
1.7.1.9.	Table A9	Asset Management
1.7.1.10.	Table A10	Basic Service Delivery Measurement

## QUALITY CERTIFICATE

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I, **TV Mkhize, Municipal Manager** of **éDumbe Local Municipality**, hereby certify that the annual draft budget for 2013/2014 financial year and supporting documentation has been prepared in accordance with the Municipal Finance Management Act, and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

\_\_\_\_\_  
Mr TV Mkhize  
Municipal Manager  
éDumbe Local Municipality (KZ261)

Date: \_\_\_\_\_